APPENDIX A

BRIEF FOR APPELLANTS SEARS ROEBUCK & CO.
AND IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA

IN THE
United States Court of Appeals
FOR THE FEDERAL CIRCUIT

Appeal No. 93-1188

U.S. PHILIPS CORPORATION,
Plaintiff/Counterdefendant-Appellee,

and

NORTH AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Counterdefendants-Appellees,

v.

SEARS ROEBUCK & CO.,
Defendant/Counterclaimant-Appellant,

and

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendant/Counterplaintiff/Appellant.

On appeal from decisions of the United States District Court for the Northern District of Illinois in 85-CV-5366 entered on December 1, 1987,

December 22, 1987, May 19, 1989,
May 17, 1990 and October 13, 1992 from
Judge Charles P. Kocoras

. . . .

Although Izumi's counterclaim bore significant resemblances to the claim tried by Windmere (which this Court endorsed and the Florida jury accepted on remand), it is broader in scope and seeks different damages — principally the manufacturing profits lost by Izumi as the result of Philips' hampering of rotary shaver sales through both Windmere and other actual or potential distributors. In addition to predatory pricing aimed at sales through Windmere, Izumi's counterclaim focuses principally on Philips' action to cut off Izumi's business at the source through sham litigation in Japan and its foreclosure of the valuable Schick trademark from other potential United States distributors.

. . . .

SUMMARY OF ARGUMENT

1. *Izumi's antitrust counterclaims were not compulsory to U.S. Philips' patent infringement claim.* The district court's ruling that Izumi's antitrust counterclaims are barred because they were compulsory counterclaims in Florida is in error for at least the following three reasons:

(i) Seventh Circuit law examines whether there is a "logical relationship" between plaintiff's claim and defendant's counterclaim to determine if the counterclaim is compulsory. Even if there is a technical relationship, a counterclaim is permissive where it and plaintiff's claim raise largely different legal and factual issues and are governed by

different bodies of law. The legal and factual issues presented by U.S. Philips' patent infringement claim were whether the cutters employed in Izumi shavers manufactured in 1984 infringed the '301 patent, whether that patent was invalid for anticipation or obviousness, and U.S. Philips' damages. By contrast, Izumi's antitrust claims are based principally on sham litigation in Japan, acquisition of the Schick trademark and predatory pricing. The primary factual and legal issues on these claims include whether rotary electric shavers constitute a relevant market, Philips' power to control prices and exclude competition in that market, the circumstances of the Japanese litigation against Izumi in 1978, the motive and effect of the acquisition of the Schick name in 1981, and Philips' pricing policies in response to the entry of the Ronson shavers in 1984. Plainly, the patent and antitrust claims raise different factual and legal issues and are governed by different laws.

. . . .

There are three independent reasons why the district court's compulsory counterclaim ruling was in error. As subsection A shows, Izumi's antitrust claims lack the "logical relationship" to U.S. Philips' patent infringement claim that Seventh Circuit law would require to bar them as compulsory in the Florida case. Subsection B shows that Izumi's antitrust claims could be asserted here under the rule of *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944), where the Supreme Court held that an antitrust claim, even if based on patent misuse, is not compulsory to a suit for patent infringement. Finally, subsection C demonstrates that the district court's ruling is independently erroneous under the rule of *Southern Construction Co.* v. *Pickard*, 371 U.S. 57 (per curiam), that a counterclaim which is compulsory in two pending actions can be prosecuted by the

defendant in either action.[10] *Southern Construction* requires reversal of the district court even if it correctly ruled that Izumi's antitrust claims were compulsory in the Florida case because U.S. Philips concurrently sued Izumi for inducing infringement of the '301 patent in both the Florida and Illinois cases.

. . . .

What is determinative under Seventh Circuit (and general) precedents is that the factual and legal issues between U.S. Philips' patent claim and Izumi's antitrust claims are almost entirely distinct. In Florida, Izumi was sued on a single count of inducing infringement of the '301 patent. The legal and factual issues presented by that claim were limited to (1) whether the Izumi shavers manufactured in 1984 infringed the patent; (2) whether the '301 patent was invalid for obviousness or anticipation; and (3) U.S. Philips' damages, if any.[12]

By contrast, Izumi's antitrust counterclaims involve sham litigation in Japan, foreclosure of the Schick name and predatory pricing, as well as discrimination, disparagement and interference with advertising. The primary factual and legal issues involved in these claims include whether rotary electric shavers constitute a relevant market for antitrust

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[10] The district court's orders ignore this binding Supreme Court precedent.

[12] Izumi also raised a defense, dismissed prior to trial, that the '301 patent was procured by U.S. Philips' inequitable conduct before the United States Patent and Trademark Office ("PTO"). As the district court correctly recognized, the "core of operative facts" on this defense was U.S. Philips' conduct before the PTO during prosecution of the patent. (A9.) Izumi's antitrust claims are not based upon conduct before the PTO.

purposes, the extent of Philips' market power to control prices and exclude competition, the circumstances of N.V. Philips' litigation against Izumi in Japan in 1978, the motives and effect of the acquisition of the Schick name by N.A. Philips in 1981, and N.A. Philips' and N.V. Philips' pricing policies, cost structures and other responses to the entry of the Ronson shavers in 1984.

. . . .

The district court was also mistaken in criticizing Izumi for awaiting the outcome of Windmere's antitrust claim in a supposed attempt to "reap [] the direct benefits" had Windmere succeeded, and obtain "a 'second bite at the apple' in case of Windmere's failure." (A14.) These observations again have nothing to do with the language or policy of Rule 13.[15] The only relevant issue is whether Izumi's antitrust claims were so logically and factually related to U.S. Philips' claim for inducing infringement of the '301 patent that it was required to bring the claims in Florida. Rule 13 looks only to the relationship between those two claims, and has no concern whatever with the relationship between Izumi's present counterclaims and the counterclaims asserted in Florida by a company that happened to be a codefendant.

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[15] The district court's unsupported assumptions about Izumi's motives are not correct. When Windmere ultimately prevailed on its antitrust claim, Izumi received no "direct benefit"; Windmere was the only party that received a monetary benefit. Izumi likewise was not seeking "a second bite at the apple" by asserting its counterclaims in the Illinois action. This Illinois case is the first time Izumi has sought compensation for its injuries resulting from Philips' unlawful actions.

CONCLUSION

For all the reasons stated above, this Court should reverse the district court's orders dismissing Izumi's antitrust and pendent state law counterclaims. This Court should further reverse the district court's order reinstating N.A. Philips' unfair competition claims against Sears.

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January 14, 1994

APPENDIX B

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF FLORIDA

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION, N.V. PHILIPS GLOEILAMPENFABRIEKEN,	CIVIL ACTION NO. 84-2508 CIV-Aronovitz
Plaintiff/ Counterdefendants,	*DEFENDANTS' MEMORANDUM IN OPPOSITION TO PLAINTIFFS' MOTION TO SEVER COUNTERCLAIMS AND CONSOLIDATE PRELIMINARY INJUNCTION*
v.	
WINDMERE CORPORATION, and IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,	
Defendant/ Counterplaintiffs.	FLA. BAR NO. 345563

. . . .

Even if Plaintiffs were to suggest that trial of the patent infringement and unfair competition issues be held separately before a jury, such a result would cause a waste of judicial time and impose an undue burden on Defendants in having to duplicate proof and witnesses at those trials, and require the impaneling of two juries. Defendants' Counterclaim, both as to misuse and antitrust violations to a significant degree encompass Plaintiffs' acquisition and use of the patent in suit and false assertion of alleged common law trademark rights as part of Plaintiffs' efforts to restrain legitimate competition and monopolize the relevant market. As part of and in furtherance of their monopolistic practices, Plaintiffs have sought patents with insignificant advances to prevent

competitors from entering the market and to ensure Plaintiffs' oligopolistic position in the market. By necessity Defendants' witnesses and proof on these issues are pertinent to all claims and would be duplicitous in both trials. Defendants' evidence in defense of Plaintiffs' claims of infringement, and particularly unfair competition, would be required to be re-presented in the second trial on Defendants' counterclaims.

To a large degree, Defendants would be required to prepare and present many of the same witnesses a second time. The result would be piecemeal litigation and a waste of judicial time which is contrary to the intent and spirit of Rule 42(b). *Sonobond Corporation* v. *Uthe Technology, Inc.*, 314 F.Supp. 878 (N.D. Calf. 1970) (separate trial on patent validity and misuse defenses denied as unduly burdensome); *Southern Anchor Bolt Company* v. *Atlantic Steel Company*, 96 F.R.D. 15 (S.D. Ga. 1982) (motion to sever Plaintiffs' antitrust claims from Defendants' counterclaims denied). A separate trial should not be granted unless the issue is clearly severable from the other issues in the case and does not involve the same evidence. *Nordberg Manufacturing Company* v. *Barber-Greene Company*, 47 F.R.D. 299 (N.D. Ill. 1968). In the instant case the duplication of evidence and witnesses in a second trial with respect to Defendants' counterclaims compels a finding that a separate trial should not be granted.

Although a motion to sever under Federal Rule of Civil Procedure 42(b) is addressed to the discretion of the Court, such a request must be denied unless it appears that separate trials are necessary and will be conducive to expedition and economy. The burden is upon Plaintiff to show that it will be prejudiced if a separate trial is not granted. 5 J. Moore, *Federal Practice* ¶ 42.03[1], at 42-40 (2d Ed. 1982), *See Barr* v. *Dramatists Guild, Inc.*, 573 F.Supp. 555 (S.D.N.Y. 1983). Plaintiffs have made no such showing in this case. To the contrary, prejudice would result to Windmere if the Motion to Sever was granted. Windmere, a small company

compared to the annual revenues of Plaintiffs, would be required to prepare, and present its claims involving many of the same witnesses in two separate and lengthy trials. Plaintiffs seek to use the vehicle of severed trials as a means of waging a war of attrition against Windmere, a smaller competitor. In this regard, their tactics mirror their posture in the marketplace. Illustratively, Windmere's witnesses which were listed pursuant to Local Rule 14(A)(4) would all be required to participate in each severed trial. The cost to Windmere of having its chief operating officers, David and Belvin Friedson, and its key management personnel, Arnold Thaler, Mel Price and their supporting staff involved in lengthy and severed trials over the course of many months is incalculable. Yet, that is precisely the intended effect sought by Plaintiffs' motion.

The convenience of all parties will not be served by severed trials. Unlike *Components, Inc.* v. *Western Electric Company*, 318 F. Supp. 959 (D.C. Maine, 1970), relied upon by Plaintiffs' patent, trademark and antitrust issues in the instant action do, in fact, overlap. For example, Defendants, as affirmative defenses to the patent and trademark action, have alleged that Plaintiffs have misused the patent in suit and selectively sought to enforce same against smaller and direct competitors, Defendants herein, in an effort to drive such competitors from the marketplace, while simultaneously refraining from enforcement against larger and direct competitors. *See* Windmere's Affirmative Defense 2(B). These issues have also been raised in Windmere's antitrust counterclaim. Trial of the patent and trademark issues and antitrust counterclaim will, therefore, require participation by both patent and antitrust counsel, unlike *Components, Inc.*, *supra*. Lastly, as already discussed here, Defendants are entitled to trial by jury of all issues, including patent, trademark and antitrust, unlike *Components, Inc.*, where the patent issues were scheduled for nonjury trial and the antitrust issues scheduled for jury trial. In *Components, Inc.*,

the court properly concluded that a single trial of all issues would result in the jury needlessly hearing testimony relating to the patent in suit. It is the cost and prejudice to these Defendants and not the convenience of all parties which, therefore, prompts Plaintiffs' motion. The expense, prejudice and duplication of efforts would be inconsistent with the clear intent of Rule 42(b). Accordingly, Plaintiff's motion for separate trials should be denied.

Based on the grounds asserted herein, Plaintiffs' Motion to Sever and Consolidate should be denied. Trial of this cause should be set on an expedited basis in the Fall of 1985 rather than May 13, 1985 to enable discovery of the patent and unfair competition claims as well as counterclaim issues to be adequately completed.

I HEREBY CERTIFY that a true and correct copy of the foregoing was hand-delivered to John R. Kelso, Esquire, Fowler, White, Burnett, Hurley, Banick & Stickroot, P.A., Attorneys for Plaintiffs, Fifth Floor, City National Bank Building, 25 West Flagler Street, Miami, Florida 33130 and mailed to John J. Held, Jr., Esquire, Allegretti, Newitt, Witcoff & McAndrews, Ltd., 125 South Wacker Drive, Chicago, Illinois 60606; and Forrest A. Hainline, III,

Esquire, Pierson, Ball & Dowd, Ring Building, 1200 18th Street, N.W., Washington, D.C. 20036, this 14th day of March, 1985.

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. . . .

APPENDIX C

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. PHILIPS CORPORATION, and NORTH AMERICAN PHILIPS CORP.	)	
Plaintiffs,	)	
v.	)	Civil Action
	)	No. 85 C 05366
SEARS ROEBUCK & CO. and IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,	)	Judge Kocoras
Defendants.	)	

MOTION TO RECONSIDER

Now comes the defendant Izumi and respectfully asks this Court to reconsider its order of December 1, 1987 which granted summary judgment to Philips and against Izumi's antitrust counterclaim. We respectfully suggest that the Court reconsider its prior decision on the grounds that the Court of Appeals in the Federal Circuit has directed that the antitrust complaint of Windmere be tried to a jury. The key facts are as follows:

. . . .

2. Izumi has selected the Chicago case to litigate its counterclaim against Philips. The reason for that is apparent: the case that Philips brought against Izumi in Miami was a

very small lawsuit which did not have sufficient damages to support diversity jurisdiction: it was a patent case that amounted to approximately $6,000.00 in damage to Philips. On the other hand, the case filed by Philips against Izumi in Chicago is substantial. Several patent claims are alleged by Philips directly against Izumi and violations of the Lanham Act and unfair competition are indirectly asserted against Izumi. While it is not easy to predict at this time the actual claim in monetary damages that Philips brings in the Chicago case, it appears that such direct and indirect claims could exceed $500,000.00.

. . . .

Dated: April 26, 1989

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APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. PHILIPS CORPORATION,	:	
Plaintiff,	:	
v.	:	Civil Action No. 85 C 05366
SEARS ROEBUCK AND CO., and IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,	:	Judge Charles P. Kocoras
Defendants,	:	
AND RELATED COUNTERCLAIMS	:	

IZUMI'S COUNTERSTATEMENT OF FACTS IN OPPOSITION TO COUNTERDEFENDANTS' MOTIONS TO DISMISS OR FOR PARTIAL SUMMARY JUDGMENT

. . . .

13. Windmere, *but not Izumi*, filed antitrust and related counterclaims, alleging violations of Sections 1 and 2 of the Sherman Act, Section 7 of the Clayton Act, the Robinson-Patman Act, the Antidumping Act of 1916 and interference with Windmere's contracts with the television networks. These allegations focused primarily on the Philips companies' pricing and other responses to Windmere's own marketing efforts beginning in 1984. At trial, Windmere sought

damages only from the time it actually entered the market in 1984. Windmere was separately represented by Winston & Strawn in the litigation of its antitrust claims. Izumi had no participation, financially or otherwise, in the litigation of Windmere's antitrust claims.

. . . .

Dated: September 2, 1986

Respectfully submitted,

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APPENDIX E

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. PHILIPS CORPORATION,	:	
Plaintiff,	:	
v.	:	Civil Action No. 85 C 05366
SEARS ROEBUCK AND CO., and IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,	:	Judge Charles P. Kocoras
Defendants,	:	
AND RELATED COUNTERCLAIMS	:	

OPPOSITION TO NORTH AMERICAN PHILIPS', U.S. PHILIPS' AND N.V. PHILIPS' MOTIONS TO DISMISS OR FOR PARTIAL SUMMARY JUDGMENT ON IZUMI'S COUNTERCLAIMS

. . . .

In *TRW, Inc.* v. *Ellipse Corp.*, 495 F.2d 314, 317 (7th Cir. 1974), the Court of Appeals held that privity may arise only where there is a "concurrent relationship to the same right of property, successive relationship to the same right of property, or representation of the interests of the same

person." *See also Local 1006, American Fed. of State, County and Munic. Employees* v. *Wurt*, 558 F. Supp. 230, 235 (N.D. Ill. 1982), *aff'd*, 746 F.2d 1483 (7th Cir. 1984) ("privity exists when assets and property rights are transferred"). In *TRW*, Ellipse first successfully sued Ford Motor Company, alleging that Ford's power-steering pumps infringed its patent. Ford had bought many of the infringing pumps from TRW pursuant to an indemnification agreement requiring TRW to pay any judgment for patent infringement. TRW, which had not been a party in the first proceeding, then filed its own declaratory judgment action, challenging the validity of the patent. The Seventh Circuit rejected Ellipse's argument that the suit was barred by *res judicata*, holding that privity could not be established on the basis of the contractual relationship between TRW and Ford because "certainly there is no question of representation of the interests of the same party, and furthermore, there is no relationship (either concurrent or successive) arising from the general doctrine of privity of estate." 495 F.2d at 318.[25]

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[25] The Court of Appeals distinguished many of the same relationships relied upon by counterdefendants — shareholder/corporation; father/son; and privity of estate (lessor/lessee, etc.). 495 F.2d at 318. It further held that TRW's participation in the first case, observing the proceedings and submitting *amicus curiae* briefs, was insufficient participation "to render applicable the doctrine of *res judicata*." *Id.* Izumi's situation here is *a fortiori* because it had no participation at all in the prosecution of Windmere's antitrust claims.

Other courts concur that a contractual relationship does not establish privity. *Bryson* v. *Guarantee Reserve Life Ins. Co.*, 520 F.2d 563, 567 (8th Cir. 1975); *Putnam Mills Corp.* v. *United States*, 479 F.2d 1334, 1340 (Ct. Cl. 1973); *see* 18

(continued...)

TRW had a contract with Ford to sell power-steering pumps. Izumi had a contract with Windmere to sell electric shavers.[26] Although TRW had to pay any judgment against Ford, it was not in privity. Here, of course, Izumi had even less involvement because it would not have received any of the proceeds of any judgment won by Windmere on its antitrust claims.

. . . .

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[25](...continued)

Wright & Miller, Federal Practice & Procedure § 4460 at p. 529 (1981) ("Parties on opposite sides of a contract ordinarily do not have authority to bind each other by litigation with third parties").

[26] NAPC's and U.S. Philips' argument that "Izumi, a supplier to Windmere * * *, stands in precisely the same position as a stockholder who is in effect a supplier of capital to the corporation" (NAPC Mem. 14) is senseless on its face. A shareholder's injury is based entirely on the value of his stock in the corporation. This is not true with respect to third parties, like Izumi, who simply have contractual dealings with the corporation. Moreover, *TRW* completely refutes NAPC's and U.S. Philips' strained analogy.

CONCLUSION

For all the foregoing reasons, counterdefendants' motions to dismiss or alternatively for summary judgment should be denied in full.

Dated: September 2, 1986

Respectfully submitted,

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APPENDIX F

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. PHILIPS CORPORATION,	)	
	)	
Plaintiff,	)	
	)	
v.	)	Civil Action No.
	)	85 C 05366
SEARS ROEBUCK & CO. and	)	
IZUMI SEIMITSU KOGYO	)	Judge Charles P.
KABUSHIKI KAISHA,	)	Kocoras
	)	
Defendants.	)	
	)	

MEMORANDUM IN SUPPORT OF
IZUMI'S MOTION FOR RECONSIDERATION

. . . .

Izumi has yet to have its day in court on its antitrust claims.[13] Philips, on the other hand, has created two

---

[13] In its opinion, the Court asserts that "had Windmere prevailed on its antitrust counterclaims, Izumi would have reaped the direct benefits * * *." (Mem. Op. 13). That simply is not so. Izumi would have received no legal benefits because it was not a party to Windmere's claim. Only (continued...)

lawsuits by suing Izumi in two different forums for inducing infringement of the same patent and took no steps to prohibit Izumi from prosecuting its claims here until after the trial in Florida. Izumi should be permitted to pursue its antitrust counterclaims in this lawsuit.

. . . .

---

[13](...continued)

Windmere would have received any monetary award or the benefit of any injunctive relief. From a business view point, Izumi would likewise have received no benefit because the undisputed evidence in Florida was that Windmere, which had existed the rotary shaver business, would not have reentered the market even if it had prevailed on its claim. (Exhibit 6). The simple truth is that Izumi can only benefit if it is permitted to proceed in this lawsuit. Thus, Izumi's antitrust counterclaims are not its "second bite at the apple" (Mem. Op. 13), but its first and only attempt to raise its claims.

CONCLUSION

For all the foregoing reasons, the Court should reconsider its decision and deny Philips' motions for partial summary judgment.

Dated: December 17, 1987

Respectfully submitted,

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APPENDIX G

UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. PHILIPS CORPORATION, and NORTH AMERICAN PHILIPS CORP.	)	
Plaintiffs,	)	
v.	)	Civil Action
	)	No. 85 C 05366
SEARS ROEBUCK & CO. and IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,	)	Judge Kocoras
Defendants.	)	

MEMORANDUM IN SUPPORT OF IZUMI'S MOTION FOR RECONSIDERATION

. . . .

Izumi has yet to have its day in court on its antitrust claims.[12] Philips, on the other hand, has created two lawsuits by suing Izumi in two different forums for inducing infringement of the same patent and took no steps to prohibit Izumi from prosecuting its claims here until after the trial in

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[12] In its opinion, the Court asserts that "had Windmere prevailed on its antitrust counterclaims, Izumi would have reaped the direct benefits * * *." (Mem. Op. 13). That simply is not so. Izumi would have received no legal benefits because it was not a party to Windmere's claim. Only Windmere would have received any monetary award or the benefit of any injunctive relief. From a business view point, Izumi would likewise have received no benefit because the undisputed evidence in Florida was that Windmere, which had exited the rotary shaver business, would not have reentered the market even if it had prevailed on its claim. (Exhibit 4). The simple truth is that Izumi can only benefit if it is permitted to proceed in this lawsuit. Thus, Izumi's antitrust counterclaims are not its "second bite at the apple" (Memo. Op. 13), but its first and only attempt to raise its claims.

Florida. Izumi should be permitted to pursue its antitrust counterclaims in this lawsuit.

. . . .

Dated: April 14, 1989

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APPENDIX H

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

KABUSHIKI KAISHA IZUMI SEIKI SEISAKUSHO, a Japanese corporation, Plaintiff, vs. WINDMERE CORPORATION, a Florida Corporation; U.S. PHILIPS CORPORATION, a Delaware Corporation; NORTH AMERICAN PHILIPS CORPORATION, a Delaware Corporation; N.V. Philips Gloeilampenfabrieken, a Netherlands corporation; DAVID M. FRIEDSON, an individual Defendants.	---CIV--- Case No. [94-0803-CIV-MOORE] ---CR--- Magistrate Judge [Turnoff] COMPLAINT FOR: (1) BREACH OF CONTRACT; (2) BREACH OF CONTRACT; (3) PROMISSORY ESTOPPEL; (4) BREACH OF CONTRACT; (5) BREACH OF CONTRACT; (6) FRAUD AND MISREPRESENTATION; (7) INTENTIONAL INTERFERENCE WITH CONTRACTUAL RELATIONS;

(8) CONSPIRACY TO INTENTIONALLY INTERFERE WITH CONTRACTUAL RELATIONS
(9) CONSPIRACY;
(10) BREACH OF FIDUCIARY DUTY; AND
(11) FRAUD AND DECEIT

DEMAND FOR JURY TRIAL

Plaintiff Kabushiki Kaisha Izumi Seiki Seisakusho, for its Complaint alleges, upon personal knowledge with respect to itself and its own acts, and upon information and belief with respect to all other matters, as follows:

. . . .

45. In 1985, before Izumi filed antitrust counterclaims in Illinois and after Windmere had filed its antitrust counterclaims in Florida, Izumi approached Defendant Friedson to discuss Izumi joining in Windmere's antitrust counterclaims against Philips in Florida. Friedson told Izumi that Windmere did not want Izumi to assert antitrust counterclaims in the Florida action. Friedson explained that Windmere was concerned about the effect of anti-Japanese bias on the jury trial of the antitrust counterclaims. Friedson threatened that Windmere would cease doing business with Izumi if Izumi added its antitrust counterclaims in the Florida action.

46. In 1985, Friedson made an oral promise to Izumi that if Izumi did not add its antitrust counterclaims to the Florida action and if Windmere received a substantial

payment from Philips related to its antitrust counterclaims against Philips, then Windmere would share with Izumi any substantial payment Windmere receives from Philips as a result of its antitrust counterclaims against Philips, such amount to cover the costs and expenses Izumi incurred in defending Windmere in Florida and an additional amount. In reliance on Friedson's promise, Izumi brought its antitrust counterclaims against Philips in the Illinois district court on August 30, 1985.

. . . .

54. Izumi, in reliance on the promises Friedson made in 1985 and 1989 while apparently acting on behalf of Windmere, pursued its antitrust counterclaims in Illinois. But for the 1985 and 1989 promises, Izumi would have added its antitrust counterclaims to the Florida action. As a result of Izumi's reliance on Windmere's promises, Izumi did not add its antitrust counterclaims to the Florida action where Windmere's antitrust counterclaims were pending and now Izumi may have forever lost its right to pursue its antitrust counterclaims against Philips and may never have an opportunity to recover the damages it believes it has suffered as a result of Philips' antitrust violations. Izumi believes and is informed that the antitrust damages inflicted by Philips on Izumi have been substantial.

. . . .

Dated: April 21, 1994

Respectfully submitted,

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APPENDIX I

BRIEF OF APPELLEES U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION AND N.V. PHILIPS GLOEILAMPENFABRIEKEN

IN THE

United States Court of Appeals

FOR THE FEDERAL CIRCUIT

Appeal No. 93-1188

U.S. PHILIPS CORPORATION,
Plaintiff/Counterdefendant-Appellee,

and

NORTH AMERICAN PHILIPS CORPORATION and N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Counterdefendants-Appellees,

—v.—

SEARS ROEBUCK & CO.,
Defendant/Counterclaimant-Appellant,

and

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendant/Counterplaintiff-Appellant.

ON APPEAL FROM DECISIONS OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS in No. 85-CV-5366 entered on December 1, 1987, December 22, 1987, May 19, 1989, May 17, 1990 and October 13, 1992
Honorable Charles P. Kocoras, Presiding

. . . .

Contrary to its position here that the claims are distinct, Izumi asserted in *Windmere* that Philips' patent claim and Windmere's antitrust claim, identical to that asserted by Izumi here (*compare* A85-94 *with* A179-88), arose out of the same transaction and could not be separated. In a written submission opposing Philips' motion to sever, Izumi claimed that:

> [severance of the patent and antitrust claims] would cause a waste of judicial time and impose an undue burden on [Izumi and Windmere] in having to *duplicate proof and witnesses at those trials* . . . . [Izumi's and Windmere's] Counterclaim, both as to misuse and antitrust violations *to a significant degree* encompass [Philips'] acquisition and use of the patent in suit and false assertion of alleged common law trademark rights *as part of* [Philips'] efforts to restrain legitimate competition and monopolize the relevant market. (emphasis added)
>
> . . .
>
> [P]atent, trademark and antitrust issues in the instant action do, in fact, overlap. For example, [Izumi and Windmere], as affirmative defenses to the patent and trademark action, have alleged that [Philips] ha[s] misused the patent in suit and selectively sought to enforce same against smaller and direct competitors . . . in an effort to drive such competitors from the

marketplace . . . . These issues have also been raised in Windmere's antitrust counterclaim (A278-79).

In oral argument, Izumi's counsel (the same counsel representing Izumi here) told the *Windmere* court:

> There is an interface between the antitrust issue and the trademark issue . . . part of [Philips'] monopolization . . . has been the obtaining of design patents, the attempt to obtain trademarks . . . to totally exclude competition (A293).
>
> How [the antitrust counterclaim and Philips' claims] relate is [that] the alleged trademark, the design patent, [and] the intellectual property issue *is one aspect of [Philips'] overall plan to monopoliz[e]* and control this market . . . (A295) (emphasis added).[4]

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[4] It is both misleading and unfair of Izumi to accuse Philips of "duplicity" (Iz. Br. 27) because Philips quoted Izumi's written submission in an earlier brief to demonstrate that Izumi had taken the position that its patent misuse defense in *Sears* was quite limited. It is absurd to claim that Philips "adopt[ed] and rel[ied] upon" (*id.*) Izumi's position by quoting it, when Philips did so for no reason other than to demonstrate that this was Izumi's position (A296-305). Moreover, Philips did not previously represent "that Izumi's antitrust claims were permissive counterclaims" (Iz. Br. 11), but merely referred to the counterclaim as permissive in a report to the court which reflected "discussions with counsel for Sears . . . and Izumi" (A107). Thereafter, Philips filed a motion asserting that Izumi's counterclaim was compulsory in *Windmere* (A1). Izumi also contends that Philips' motion on the order of proof at the *Windmere* trial constitutes an argument that "antitrust claims were entirely separate from the intellectual property issues" (Iz. Br. 26 n.16); Philips' (continued...)

Although consistently and vehemently arguing in *Windmere* that Philips' patent claim involves "one aspect" of the theory that Philips monopolized, that Philips' patent prosecution was "part of" the monopolization claim, and that the patent and antitrust claims "duplicate proof and witnesses," Izumi nevertheless chose not to assert its counterclaim in *Windmere*, and now argues that the claims are distinct.

Both the *Windmere* and *Sears* courts, however, recognized that Philip's claim in *Windmere* and Izumi's counterclaim here arise out of the same disputed issue. In *Sears*, the Court concluded:

> The basic controversy between Izumi and [Philips] is whether the large market share enjoyed by [Philips] is the result of lawful use of the '301 patent (Philips' claim) or an unlawful attempt to monopolize the rotary electric shaver market (Izumi's counterclaim) (A13).

Although Izumi claims that the district court's conclusion was "erroneous" and without "record support" (Iz. Br. 18), the court's view is fully in accord not only with Izumi's prior representations in *Windmere*, but also with the conclusion reached by the district court in *Windmere* concerning Izumi's affirmative defense:

> Defendants [Windmere and Izumi] allege . . . that [Philips] used their ['301] patent to further their plan to restrain trade and force Windmere out of the rotary shaver market. They allege that [this] lawsuit is a 'competitive ploy,' . . . [and] contend that [Philips'

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[4](...continued)

motion, however, had nothing to do with the issues being "separate," but rather was intended to allow Philips to put on its case without interference from evidence of alleged antitrust violations.

'301] patent is being enforced in order to restrain trade (A308-309).

Both courts were correct, and Izumi's earlier position that separating the patent and antitrust claims "would cause a waste of judicial time and impose an undue burden" on the parties belies its assertion here.

In addition to the fact that Philips' claims in *Windmere* and Izumi's antitrust counterclaim in *Sears* arise out of the same transaction, several details of Izumi's counterclaim specifically rely on matters involved in *Windmere*. For example, one significant aspect of Izumi's counterclaim in *Sears* consists of an allegation that Philips' claim in *Windmere* constitutes "sham litigation" in an effort to monopolize (A130-31). Izumi's counterclaim also alleges that Philips has used the patent on which the *Windmere* claim is based as part of a "continuing scheme to dominate and to control the market" (A123). Izumi's affirmative defense in *Windmere* raised the identical issue (A271). Moreover, by pleading in *Windmere* that Philips misused its patent to "extend [its] monopoly," Izumi relied on the same monopolization law invoked by its claim here. *See Litton Indus. Prods. Inc.* v. *Solid State Sys. Corp.*, 755 F.2d 158, 166, 225 U.S.P.Q. 34, 39-40 (Fed. Cir. 1985) (*Walker Process* claim that patent was misused is based on law under § 2 of the Sherman Act). Thus, contrary to Izumi's assertion (Iz. Br. 18-19), Izumi's counterclaim here and its affirmative defense in *Windmere* rely on similar assertions and involve identical law.

. . .

CONCLUSION

For the foregoing reasons, the orders of the district court dismissing Izumi's counterclaim and reinstating Philips' unfair competition claim should be affirmed.

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APPENDIX J

REPLY BRIEF FOR APPELLANTS SEARS ROEBUCK & CO. AND IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA

IN THE

United States Court of Appeals

FOR THE FEDERAL CIRCUIT

Appeal No. 93-1188

U.S. PHILIPS CORPORATION,
Plaintiff/Counterdefendant-Appellee,

and

NORTH AMERICAN PHILIPS CORPORATION and N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Counterdefendants-Appellees,

v.

SEARS ROEBUCK & CO.,
Defendant/Counterclaimant-Appellant,

and

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendant/Counterplaintiff/Appellant.

On appeal from decisions of the United States District Court for the Northern District of Illinois in 85-CV-5366 entered on December 1, 1987, December 22, 1987, May 19, 1989, May 17, 1990 and October 13, 1992 from Judge Charles P. Kocoras

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. . . .

The remainder of Philips' compulsory counterclaim argument is devoted to accusations that Izumi somehow admitted in Florida that its present antitrust claims would be compulsory to the patent infringement claim, and that Izumi, apparently with the cooperation of Windmere, had a grand scheme to create multiple litigation of their antitrust claims.

The short answer to Philips' "admission" argument is that Philips, the defendants, and the Florida district court judge *all* expressly recognized that Windmere's antitrust counterclaims (which Philips characterizes as the same as Izumi's antitrust counterclaims) were *permissive* counterclaims to all of Philips' intellectual property claims. (A207-08, 219-20, 225, 228-29.)[5] Moreover, Philips mischaracterizes the context of the Florida severance proceedings. At the hearing, Philips' counsel made clear that Philips was only seeking severance between the unfair competition claim and antitrust claim. Thus, the alleged

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[5] While not denying that it submitted a pleading to the Illinois court stating *in three places* that Izumi's antitrust claims (brought in response to the same '301 patent asserted in Florida) are *permissive*, Philips tries to avoid its own admissions by contending that it was merely "a report to the court which reflected 'discussions with counsel for Sears . . . and Izumi.'" (Ph. Br. 8 n.4 (quoting A107).) *Philips* submitted the "report" which *never* says that it is only reporting Sears' and Izumi's opinions.

"admissions" necessarily related only to claims and defenses to which Izumi was not a party. (A210, 215.)[6]

Philips' version of what went on in Florida falsely characterizes Windmere and Izumi as a single entity and blurs the Florida patent and unfair competition claims to imply that both were brought against Izumi. Izumi was sued only on the '301 patent, and its affirmative defense was much narrower than the defenses raised by Windmere, which was also sued for unfair competition. (*Compare* A271-72 *with* A412-15, 416.)[7] It is entirely inaccurate to portray Izumi's

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[6] Philips also mischaracterizes the outcome of its severance motion to create the false impression that Windmere and/or Izumi obtained a significant advantage. Philips claims that its "motion was unsuccessful" and "[a]lmost two years of discovery followed" before the 1986 trial. (Ph. Br. xxxi.) But the record shows that at the conclusion of the August 30, 1985 hearing on Philips' motion, the parties *agreed* to a schedule where discovery on all claims would take place over the next 3 1/2 *months*, and the trial would occur shortly thereafter. (A398-404.)

[7] It is particularly unconscionable for Philips to imply that Izumi was involved in the unfair competition claim. As part of the Philips/Windmere settlement, Philips and Windmere moved to vacate the unfair competition claim and convinced this Court that Izumi, as a nonparty to the unfair competition claim, did not have standing to object to the motion to vacate. *U.S. Philips Corp.* v. *Windmere Corp.*, 971 F. 2d 728, 730-31, 23 USPQ2d 1709, 1710-11 (Fed. Cir. 1992), *cert. dismissed*, 114 S. Ct. 425 (1993).

The unfair competition claim has no legal bearing on the compulsory counterclaim rule, which is based on the doctrine of *res judicata*. *Switzer Bros., Inc.* v. *Locklin*, 207 F.2d 483, (continued...)

Florida defense as an antitrust defense.[8] Rather, it alleged only that the '301 patent was "invalid and unenforceable" by reason of inequitable conduct consisting of (1) "fail[ure] to deal with the Patent and Trademark Office [("PTO")] with full candor and good faith" and (2) "incorrect and/or misleading statements and arguments made to the United States Patent and Trademark Office during the prosecution of the patent application that resulted in the patent in issue." (A271-72.) Even the court below recognized that Izumi's defense was only inequitable conduct, which it found "completely unrelated" to Izumi's antitrust counterclaims. (A9-10.)

Philips' notion of a grand scheme "to have the identical antitrust claim against Philips tried twice" (Ph. Br. 10), is both legally irrelevant and devoid of factual support. Philips' argument is based upon a contention that a counterclaim which is otherwise permissive becomes compulsory because

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[7](...continued)

488 (7th Cir. 1953), *cert. denied*, 347 U.S. 912 (1954). In *Montana* v. *United States*, 440 U.S. 147 (1979), the Court explained that *res judicata* cannot bar a person who has controlled the actual litigation of an issue to which he was not strictly a party because "the cause of action which a nonparty has vicariously asserted differs by definition from that which he subsequently seeks to litigate in his own right." *Id.* at 154.

[8] Philips is not even consistent in its own brief. Sometimes it asserts that Izumi's defense was "identical" to its antitrust counterclaims (Ph. Br. 4, 10, 15, 17), while at other times, it states that Izumi's defense is only "a part" of its antitrust counterclaims (Ph. Br. 2, 14, 20).

a co-defendant happens to file a related counterclaim.[9] Philips points to no authority that the applicability of Rule 13(a) is in any way affected by the claims filed by a co-defendant. Thus, even if everything Philips said were correct, it would not matter because the only relevant inquiry is the relationship between Philips' Florida patent claim and Izumi's antitrust counterclaims.[10]

. . . .

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[9] Philips' assertion that Windmere's and Izumi's antitrust claims are the same is a significant overstatement. Windmere tried its antitrust claim by focusing on Philips' response to Windmere's 1984 market entry. Izumi's antitrust claims rely to a large degree on activities prior to Windmere's entry.

[10] Philips' contention that Izumi would have asserted a *res judicata* bar against Philips upon a Windmere antitrust victory — a linchpin of its grand scheme argument — is legally incorrect. If Philips has correctly characterized Izumi as a "wait and see" plaintiff, the Supreme Court's decision in *Parklane Hosiery Co.* v. *Shore*, 439 U.S. 322, 330 (1979), would preclude such a plaintiff from using offensive collateral estoppel.

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